

## Message Text

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ACTION IO-14

INFO OCT-01 AGR-20 RSC-01 AID-20 EB-11 EUR-25 COME-00

ISO-00 TRSE-00 SWF-02 DRC-01 /095 W

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P 020941Z JUL 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 5692

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FODAG/AIDAC

PASS KRIESBERT, ERS/USDA

FOR MOSHER PPC FROM BERG

E.O. 11652: ADS JULY 2, 1975

TAGS: FAO, OCON, EAGR

SUBJECT: WORLD BANK BOARD MEETING JULY 5 ON FERTILIZER POLICY

1. REGRET THAT PRIOR DEPARTURE FOR FAO FERTILIZER COMMISSION MEETINGS HERE, INSUFFICIENT TIME MEET WITH YOU ON U.S. POSITION IBRD REPORT NBR 446 SCHEDULED FOR BOARD DISCUSSION JULY 5.

2. DISCUSSED BANK FERTILIZER POLICY JUNE 27 WITH ROGER CARMIGNANI WHO SCHEDULED HEAD NEW BANK GROUP FERTILIZER PLANNING UNIT (AND WHO IS BANK DELEGATE THESE MEETINGS) AND GEORGE KALMANOFF, IBRD INDUSTRY DEPUTY DIRECTOR. REPORT 446 COVERED FUTURE BANK FERTILIZER PLANT INVESTMENT PROGRAM. NO BANK POLICY YET FORMULATED ON FINANCING FERTILIZER SUPPLIES OR TECHNICAL ASSISTANCE TO LDC PLANNING, PRODUCTION AND DISTRIBUTION SYSTEMS. SOLE EMPHASIS TO DATE ON INVESTMENT NEW FACILITIES IN PART REGRETTABLE SINCE INVESTMENT NOT SOLUTION TO SHORT TERM CRISIS AND ANNOUNCEMENTS NEW PLANT INVESTMENTS (WHICH PART LONG-TERM SOLUTION) HAVE BEEN RUNNING AT PACE ALMOST IMPOSSIBLE KEEP TRACK OF SINCE BANK DATA USED IN REPORT COMPILED O/A 9/73.

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3. FERTILIZER COMMISSION MEETING WILL FOCUS ON 74-75 PROBLEM

WHICH IS APPROPRIATE GIVEN LIKELY EASING OF PROBLEM IN 1976 AND BEYOND. FROM JUNE 27 MEETING LEARNED THAT REGRETTABLY BANK WILL NOT HAVE POSITION ON SHORT-TERM PROBLEMS FOR THIS MEETING AS IT HAS NOT DONE HOMEWORK YET.

4. REQUEST YOU CONVEY TO U.S. DIRECTOR THAT COMMENTS ALONG FOLLOWING LINES WOULD BE USEFUL AT JULY 5 MEETING: (A) U.S. RECOGNIZES IMPORTANT ROLE PUBLIC FINANCE IN FERTILIZER PLANT CONSTRUCTION WHERE LDC MARKET LARGE AND PRIVATE PARTICIPATION NOT FORTHCOMING. WHILE ANY NEW CAPACITY CREATED IN TIME HELP 1974-76 MARKET WILL BE HIGHLY USEFUL, U.S. SHOULD NOTE PRIVATE PARTICIPATION FERTILIZER PLANTS HAS HISTORICALLY MEANT MUCH GREATER EFFICIENCY (E.G. PRIVATE NITROGEN PLANTS IN INDIA PRODUCED AT 89 PERCENT CAPACITY IN 1972/73 VERSUS 58 PERCENT FOR PUBLIC SECTOR PLANTS); THEREFORE BANK SHOULD ENCOURAGE PRIVATE PARTICIPATION IN ITS PLANT PROJECTS. WE CONCERNED STRONG POSSIBILITY GLUT WORLD MARKET IN LATE 1970S SIMILAR GLUT IN LATE 1960S IF RECENT NEW PLANT ANNOUNCEMENTS COVERING ALL CORNERS WORLD MATERIALIZES. IN THIS SITUATION, INVESTMENT POLICY COVERING 1974-80 INVOLVES UNNECESSARY RISKS FOR BANK AND ITS CLIENTS. WOULD BE WISER AVOID FIRM LONG-TERM POLICY COMMITMENT IN PREFERENCE CARRYING OUT CY 1974 PROGRAM WITH COMMITMENT OPERATE ON YEAR-BY-YEAR PLANNING BASED ON UP-DATED ANNUAL OR SEMI-ANNUAL WORLD AND SPECIFIC MARKET SUPPLY/DEMAND ANALYSES.

4.A. LONG-TERM STRATEGY COULD BEST BE FORMULATED AROUND PROPOSITION THAT BANK SHOULD BE PREPARED MOVE INTO FERTILIZER PLANT FINANCINGS WHEN PRIVATE INVESTMENT SLACKS OFF. CURRENT ROUND OF CONSTRUCTION SO ACTIVE THAT BANK WILL MERELY BE BIDDING UP COST NEW PLANTS BY COMPETING FOR BUSINESS FROM ALREADY FULLY BOOKED PLANT CONTRACTORS. IN LATE 1970S THERE WILL LIKELY BE SHARP FALLING OFF OF PRIVATE INVESTMENT MARKET DURING WHICH TIME BANK COULD BE HIGHLY USEFUL IF IT THEN ASSISTED LDGS WITH NEW PLANTS (WHICH IT THEN COULD DO AT RELATIVELY ATTRACTIVE PRICES WHILE CONSTRUCTION ACTIVITY LOW) IN ORDER AVOID VERY TIGHT MARKET SITUATION IN EARLY 1980S SIMILAR TO PRESENT SITUATION. IN SUMMARY, BANK INVESTMENT POLICY INAPPROPRIATELY TIMED AS FRAMED IN REPORT 446 AND WILL NOT BE BEST USE PUBLIC MONIES.

(B) IN ANY CASE, CURRENT NEW PLANT STARTS TOO LATE TO AFFECT 1974-75 LDC MARKET REQUIREMENTS. BANK WILL BE (AND BY TIME JULY 5 MEETING WILL ALREADY HAVE BEEN) CALLED UPON BY FERTILIZER LIMITED OFFICIAL USE

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COMMISSION TO HELP FINANCE CY 74-75 SUPPLIES. IT IS IMPORTANT BANK FORMULATE POLICY ON THIS SOONEST. WHILE BANK HAS HELPED FINANCE FERTILIZER IMPORTS UNDER SOME RECENT LOANS, E.G. PART OF \$150 MILLION IDA CREDIT TO INDIA, IT HAS NOT BEGUN GIVE SPECIFIC FOCUS ON POLICY REGARDING ASSISTANCE FOR FERTILIZER IMPORTS. (C) ANOTHER SHORT-TERM NEEDED ACTION OF GREAT IMPORTANCE (AND LOW COST) IS EXTENDING TECHNICAL ASSISTANCE TO LDGS FOR PLANNING FERTILIZER REQUIREMENTS, HELP IN RAISING POOR PRODUCING LDC PLANTS

AND HELP ON MARKETING/DISTRIBUTION PROBELMS. U.S. STRAINING ITS CAPABILITIES (LARGELY TVA) TO UTMOST TO ADDRESS THIS NEED. HAD HOPED JOINT UNIDO/FAO/UNDP/IBRD PLAN TO OFFER TECHNICAL ASSISTANCE WOULD BE OF SUBSTANTIVE HELP, BUT THIS EFFORT FLOUNDERING DUE LACK FUNDS AND PERHAPS DUE LACK IBRD PUSH. TECHNICAL ASSISTANCE IS INEXPENSIVE YET IMPORTANT PART ANY ENLIGHTENED RESPONSE CURRENT WORLD PROBELM.

(D) IF A, B AND C ABOVE CARRIED OUT IN COORDINATED WAY, BANK COULD MAKE TIMELY AND MOST IMPORTANT CONTRIBUTION TOWARDS SOLVING LDC PLIGHT. MASSIVE INVESTMENT PROGRAM ALONE IS SKEWED PLANNING WITH CONSIDERABLE RISK OVERKILL.

5. WILL ADVISE IF DELOPMENTS DURING COMMISSION MEETINGS HERE  
ADD ADDITIONAL POINTS TO ABOVE. VOLPE

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** POLICIES, MEETINGS, FERTILIZERS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 02 JUL 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** golinofr  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 21 MAY 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <21 MAY 2002 by elyme>; APPROVED <06-Aug-2002 by golinofr>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** WORLD BANK BOARD MEETING JULY 5 ON FERTILIZER POLICY  
**TAGS:** OCON, EAGR, FAO, IBRD  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005